# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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## FISCAL IMPACT STATEMENT

**LS 7808** **NOTE PREPARED:** Jan 23, 2003
**BILL NUMBER:** SB 463 **BILL AMENDED:**

**SUBJECT:** Medicaid Case-Mix Reimbursement Changes.

**FIRST AUTHOR:** Sen. Dillon **BILL STATUS:** As Introduced
**FIRST SPONSOR:**

**FUNDS AFFECTED:** **X** **GENERAL** **IMPACT:** State & Local
**DEDICATED**
**X** **FEDERAL**

**Summary of Legislation:** This bill requires the state's Medicaid rate-setting contractor to: (1) use the most recent completed year when calculating medians and provider rates; and (2) calculate the median for each rate component each quarter using all cost reports received by the state within a specified timeframe. The bill also requires the Office of Medicaid Policy and Planning: (1) to modify Medicaid reimbursement for health facilities to remove expenses for property taxes from the capital rate component and calculate the expenses in a new rate component; and (2) to adopt specified emergency and permanent rules.

**Effective Date:** Upon passage; March 31, 2003 (retroactive).

**Explanation of State Expenditures:** *Summary:* This bill provides for changes to the Medicaid case-mix reimbursement system used in determining reimbursement rates for nursing facilities. Total additional expenditures to the Medicaid program are estimated to increase by $13.4 M to $20.4 M annually. The state share of this amount would be $5.1 M to $7.75 M annually from the state General Fund.

*Background Information:*

*Rate-Setting Procedures:* The bill contains provisions that change the procedures the rate-setting contractor uses when recalculating reimbursement rates. These procedures specify the nursing facility cost reports to use when establishing medians, specify the timing requirements when requesting additional information, and limits the use of draft audit reports in setting rates. Myers and Stauffer, the state's nursing facility rate-setting contractor, estimates that if nursing home costs increase by 1% to 2% greater in the aggregate than the HCFA/SNF index, the annual additional expenditures paid to nursing facilities would be about $10 to $20 M. This would represent $3.8 M to $7.6 M in state share of expenditures.

The provision effectively alters the methodology for calculating reimbursement rates by basing the new rates on the most recently completed cost reports provided by nursing facilities, rather than on the prior year's cost reports. In either case, in the calculation of the new rates, the nursing facility cost data would be projected forward by the HCFA/SNF index, an index computed by the Centers for Medicare and Medicaid Services (CMS, formerly HCFA). This is an index much like the Consumer Price Index, except that it measures the historical change in nursing facility costs instead of the costs of consumer items.

Generally, to the extent that the HCFA/SNF index is a good predictor of the allowable costs reported by Indiana nursing facilities, the impact of the change caused by this provision would be minimal. However, if actual Indiana costs rise faster than the nation's costs, as measured by HCFA/SNF, the calculated reimbursement rates to nursing facilities will be higher than they would otherwise be. The impact for each percentage point of actual Indiana cost increases over the HCFA/SNF index is estimated by industry sources to range from $8.3 M to $12.5 M in total Medicaid expenditures on an annual basis (or $3.15 M to $4.75 M in state costs). Conversely, if the actual Indiana costs rise slower than the HCFA/SNF index, the change in the methodology resulting from this bill would result in reduced Medicaid expenditures.

Based on an analysis by one industry source of the change in allowable nursing facility costs using 1998 and 2000 cost data, if these conditions were to continue, total Medicaid expenditures would be projected to increase by $12.9 M (or $4.9 M in state costs). Again, the amount and direction of the impact will depend on the relationship between changes in actual Indiana nursing facility costs and changes in projected costs. In comparison, Myers and Stauffer, the state's nursing facility rate-setting contractor, estimates the impact at $10 M to $20 M as described above.

*Consideration of Property Taxes:* This bill removes property taxes from the capital rate component and reimburses these costs separately without a limit. The net additional expenditures of this provision are estimated to be $3.4 M, or about $1.3 M in state share.

The capital rate component is currently one of four basic components in the case-mix reimbursement system: direct care, indirect care, administrative, and capital. Property taxes are an allowable cost within the capital component. The capital component is limited to a 95% minimum occupancy limitation, as well as by an 80% factor when computing the component's contribution to the total reimbursement rate. The bill would remove property taxes from the capital component and would create a new "property tax" component which would have no limiter.

**Explanation of State Revenues:** See *Explanation of State Expenditures* regarding expenditure reimbursement in the Medicaid program.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Currently, there are six county-owned nursing facilities that would be subject to this change in the case-mix reimbursement methodology.

**State Agencies Affected:** Office of Medicaid Policy and Planning.

**Local Agencies Affected:** County-owned nursing facilities.

**Information Sources:** Keenan Buoy, Myers and Stauffer, (317) 846-9521.

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